GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1188
ANSWERED ON:07.03.2008
OUTSOURCING OF BANKING ACTIVITIES
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes a ban on outsourcing of the banking services in public sector banks;

(b) if so, the details thereof;

(c) whether the Government proposes to fill up the existing vacancies in public sector banks; and

(d) if so, the time by which all the posts will be filled in these banks?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF Finance (Shri Pawan Kumar Bansal)

(a) & (b): In view of the growing use of outsourcing by the banks, Reserve Bank of India (RBI) has issued Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks on 3rd November, 2006, to enable the banks to effectively manage the risks arising out of outsourcing. As per these guidelines, the banks are required to put in place a Board approved comprehensive policy detailing all relevant aspects such as the services to be outsourced, criteria for selection of such activities as well as service providers, parameters for defining material outsourcing, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities. However, the guidelines specify that banks should not outsource core management functions including internal audit, compliance function and decision-making functions like determining compliance with Know Your Customer (KYC) norms for opening deposit accounts, according sanction for loans, management of investment portfolio etc. Further, it is entirely for the banks to take a view on the desirability of outsourcing as a permissible activity related to financial services having regard to all relevant factors,including the commercial aspects of the decision.

(c) & (d): Government has granted autonomy to the public sector banks in respect of all human resource issues relating to them including staffing pattern, recruitment, placement, transfer, training, promotion, etc. Accordingly, the banks evaluate their manpower requirement and undertake the recruitment process in accordance with their Board approved policies